

NEW MARKET COMMUNITY SCHOOL DISTRICT
NEW MARKET, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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NEW MARKET COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Alan Brown	President	2008
Teresa Ganley	Vice President	2006
Kelly Parrot	Board Member	2008
Brian Fine	Board Member	2007
Jason Harrison	Board Member	2006
<u>Board of Education</u>		
(After September 2006 Election)		
Teresa Ganley	President	2009
Brian Fine	Vice President (resigned 3/12/07)	2007
Alan Brown	Board Member/Vice President	2008
Kelly Parrot	Board Member	2008
Jason Harrison	Board Member (resigned 1/15/07)	2009
Lorraine Madsen	Board Member (appointed 2/12/07)	2007
Angie Potter	Board Member (appointed 3/12/07)	2007
<u>School Officials</u>		
Russell Hilker	Superintendent	2007
Jennifer Graham	District Secretary/Treasurer (resigned 2/12/07)	2007
Shirley Maxwell	District Secretary/Treasurer (appointed 2/12/07)	2007
Richard Wilson	Attorney – Property Issues	Indefinite
Robert Reynoldson	Attorney – Education & Policy Issues	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
New Market Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2007 on our consideration of New Market Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 38 through 39 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Market Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
September 7, 2007

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Basic Financial Statements

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 400,277	\$ 1,338	\$ 401,615
Receivables:			
Property tax:			
Current year	17,343	-	17,343
Succeeding year	481,000	-	481,000
Income surtax	42,050	-	42,050
Due from other governments	66,881	-	66,881
Inventories	-	2,334	2,334
Restricted ISCAP assets (note 3):			
Investments	429,171	-	429,171
Accrued interest receivable	5,580	-	5,580
Capital assets, net of accumulated depreciation (note 4)	163,171	1,147	164,318
Total assets	1,605,473	4,819	1,610,292
Liabilities			
Accounts payable	75,050	-	75,050
Salaries and benefits payable	54,861	-	54,861
ISCAP warrants payable (note 3)	430,000	-	430,000
ISCAP accrued interest payable (note 3)	2,847	-	2,847
ISCAP unamortized premium (note 3)	2,545	-	2,545
Deferred revenue:			
Succeeding year property tax	481,000	-	481,000
Other	3,637	-	3,637
Total liabilities	1,049,940	-	1,049,940

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets	\$ 163,171	\$ 1,147	\$ 164,318
Restricted for:			
Management levy	126,393	-	126,393
Physical plant and equipment levy	41,469	-	41,469
Other special revenue purposes	1,202	-	1,202
Capital projects	176,046	-	176,046
State categorical aid	1,136	-	1,136
Unrestricted	46,116	3,672	49,788
Total net assets	\$ <u>555,533</u>	\$ <u>4,819</u>	\$ <u>560,352</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 1,085,270	\$ 49,561	\$ 166,677
Support services:			
Student services	10	-	-
Instructional staff services	8,882	-	-
Administration services	177,485	-	-
Operation and maintenance of plant services	110,826	-	-
Transportation services	86,541	-	1,758
	383,744	-	1,758
Non-instructional programs	6,700	-	-
Other expenditures:			
Facilities acquisition	32,225	-	-
AEA flowthrough	55,169	-	55,169
Depreciation (unallocated) *	10,175	-	-
	97,569	-	55,169
Total governmental activities	1,573,283	49,561	223,604
Business-Type Activities:			
Non-instructional programs:			
Food service operations	32,065	11,546	21,062
Total	\$ 1,605,348	\$ 61,107	\$ 244,666

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (869,032)	\$ -	\$ (869,032)
(10)	-	(10)
(8,882)	-	(8,882)
(177,485)	-	(177,485)
(110,826)	-	(110,826)
(84,783)	-	(84,783)
(381,986)	-	(381,986)
(6,700)	-	(6,700)
(32,225)	-	(32,225)
-	-	-
(10,175)	-	(10,175)
(42,400)	-	(42,400)
(1,300,118)	-	(1,300,118)
-	543	543
(1,300,118)	543	(1,299,575)

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation included
in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities		Business-Type Activities	Total
\$	521,298	\$ -	\$ 521,298
	12,377	-	12,377
	45,850	-	45,850
	95,738	-	95,738
	652,556	-	652,556
	34,139	6	34,145
	6,851	-	6,851
	1,368,809	6	1,368,815
	68,691	549	69,240
	486,842	4,270	491,112
\$	<u>555,533</u>	\$ <u>4,819</u>	\$ <u>560,352</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 100,954	\$ 127,218	\$ 129,836	\$ 42,269	\$ 400,277
Receivables:					
Property tax:					
Current year	15,966	975	-	402	17,343
Succeeding year	401,000	69,000	-	11,000	481,000
Income surtax	42,050	-	-	-	42,050
Due from other governments	20,671	-	46,210	-	66,881
Restricted ISCAP assets (note 3):					
Investments	429,171	-	-	-	429,171
Accrued interest receivable	5,580	-	-	-	5,580
Total assets	\$ <u>1,015,392</u>	\$ <u>197,193</u>	\$ <u>176,046</u>	\$ <u>53,671</u>	\$ <u>1,442,302</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 73,250	\$ 1,800	\$ -	\$ -	\$ 75,050
Salaries and benefits payable	54,861	-	-	-	54,861
ISCAP warrants payable (note 3)	430,000	-	-	-	430,000
ISCAP accrued interest payable (note 3)	2,847	-	-	-	2,847
ISCAP unamortized premium (note 3)	2,545	-	-	-	2,545
Deferred revenue:					
Succeeding year property tax	401,000	69,000	-	11,000	481,000
Other	45,687	-	-	-	45,687
Total liabilities	<u>1,010,190</u>	<u>70,800</u>	<u>-</u>	<u>11,000</u>	<u>1,091,990</u>
Fund balance:					
Reserved for:					
State categorical aid	1,136	-	-	-	1,136
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	42,671	42,671
Undesignated	4,066	126,393	176,046	-	306,505
Total fund balances	<u>5,202</u>	<u>126,393</u>	<u>176,046</u>	<u>42,671</u>	<u>350,312</u>
Total liabilities and fund balances	<u>\$ 1,015,392</u>	<u>\$ 197,193</u>	<u>\$ 176,046</u>	<u>\$ 53,671</u>	<u>\$ 1,442,302</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances of governmental funds	\$ 350,312
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	163,171
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>42,050</u>
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Net assets of governmental activities	<u><u>\$ 555,533</u></u>
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See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Special Revenue Management Levy	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 532,956	\$ 29,976	\$ 95,738	\$ 12,364	\$ 671,034
Tuition	44,551	-	-	-	44,551
Other	26,786	8,655	4,536	5,802	45,779
State sources	797,028	31	-	13	797,072
Federal sources	79,642	-	-	-	79,642
Total revenues	1,480,963	38,662	100,274	18,179	1,638,078
Expenditures:					
Current:					
Instruction	1,049,030	27,923	-	3,807	1,080,760
Support services:					
Student services	10	-	-	-	10
Instructional staff services	24,129	-	-	-	24,129
Administration services	173,821	3,664	-	-	177,485
Operation and maintenance of plant services	97,981	12,142	-	703	110,826
Transportation services	74,925	5,114	-	-	80,039
	370,866	20,920	-	703	392,489
Non-instructional programs	6,700	-	-	-	6,700
Other expenditures:					
Facilities acquisition	-	-	26,741	5,484	32,225
AEA flowthrough	55,169	-	-	-	55,169
	55,169	-	26,741	5,484	87,394
Total expenditures	1,481,765	48,843	26,741	9,994	1,567,343
Excess (deficiency) of revenues over (under) expenditures	(802)	(10,181)	73,533	8,185	70,735

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	<u>General</u>	<u>Special Revenue Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources:					
Sale of equipment	\$ 221	\$ -	\$ -	\$ -	\$ 221
Net change in fund balances	(581)	(10,181)	73,533	8,185	70,956
Fund balances beginning of year	<u>5,783</u>	<u>136,574</u>	<u>102,513</u>	<u>34,486</u>	<u>279,356</u>
Fund balances end of year	<u>\$ 5,202</u>	<u>\$ 126,393</u>	<u>\$ 176,046</u>	<u>\$ 42,671</u>	<u>\$ 350,312</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ 70,956

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 15,247	
Depreciation expense	<u>(21,187)</u>	(5,940)

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities.

3,675

Change in net assets of governmental activities	\$	<u><u>68,691</u></u>
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See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2007

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 1,338
Inventories	2,334
Capital assets, net of accumulated depreciation	<u>1,147</u>
Total assets	<u>4,819</u>
Liabilities	
None	<u>-</u>
Net Assets	
Invested in capital assets	1,147
Unrestricted	<u>3,672</u>
Total net assets	<u>\$ 4,819</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>11,546</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	15,934
Benefits	2,135
Supplies	13,554
Depreciation	442
	<u>32,065</u>
Operating loss	<u>(20,519)</u>
Non-operating revenues:	
Interest on investments	6
Contributions	6,700
State sources	320
Federal sources	14,042
Total non-operating revenues	<u>21,068</u>
Change in net assets	549
Net assets beginning of year	<u>4,270</u>
Net assets end of year	\$ <u><u>4,819</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 11,106
Cash received from miscellaneous operating activities	440
Cash payments to employees for services	(18,069)
Cash payments to suppliers for goods or services	<u>(10,842)</u>
Net cash used by operating activities	<u>(17,365)</u>
Cash flows from non-capital financing activities:	
State grants received	320
Federal grants received	11,435
Contributions received	<u>6,700</u>
Net cash provided by non-capital financing activities	<u>18,455</u>
Cash flows from investing activities:	
Interest on investments	<u>6</u>
Net increase in cash and cash equivalents	1,096
Cash and cash equivalents beginning of year	<u>242</u>
Cash and cash equivalents end of year	<u>\$ 1,338</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2007

	<u>School Nutrition</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (20,519)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	442
Commodities used	2,607
Decrease in inventories	<u>105</u>
Net cash used by operating activities	\$ <u><u>(17,365)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$2,607 of federal commodities.

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>3,047</u>	\$ <u>537</u>
Liabilities:		
Other payables	<u>-</u>	<u>537</u>
Net assets:		
Reserved for scholarships	\$ <u><u>3,047</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2007

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>137</u>
Deductions:	
Support services:	
Scholarships awarded	<u>100</u>
Change in net assets	37
Net assets beginning of year	<u>3,010</u>
Net assets end of year	\$ <u><u>3,047</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

New Market Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through six. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of New Market, Iowa, and portions of the agricultural territory in Taylor and Page Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, New Market Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. New Market Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Taylor and Page County Assessor's Conference Boards.

B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Management Levy Fund is used to account for the payments of casualty and workers' compensation insurance and certain other employee related liabilities, including unemployment benefits.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2007 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	7-15 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2007.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures exceeded the District's spending authority in the General Fund.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2. Cash and Pooled Investments (continued)

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ <u>351,442</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2006-07A	6/28/2006	6/28/2007	\$ -	\$ 2,031	\$ -	\$ -	-
2006-07B	1/26/2007	1/25/2008	153,607	3,467	154,000	2,779	497
2007-08A	6/27/2007	6/27/2008	275,564	82	276,000	68	2,048
Total			<u>\$ 429,171</u>	<u>\$ 5,580</u>	<u>\$ 430,000</u>	<u>\$ 2,847</u>	<u>\$ 2,545</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2006-07A	\$ <u>-</u>	\$ <u>70,000</u>	\$ <u>70,000</u>	\$ <u>-</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,250	\$ -	\$ -	\$ 3,250
Capital assets being depreciated:				
Buildings	421,305	-	-	421,305
Improvements other than buildings	28,170	-	-	28,170
Furniture and equipment	200,534	15,247	-	215,781
Total capital assets being depreciated	650,009	15,247	-	665,256
Less accumulated depreciation for:				
Buildings	331,188	8,766	-	339,954
Improvements other than buildings	21,135	1,409	-	22,544
Furniture and equipment	131,825	11,012	-	142,837
Total accumulated depreciation	484,148	21,187	-	505,335
Total capital assets being depreciated, net	165,861	(5,940)	-	159,921
Governmental activities capital assets, net	\$ 169,111	\$ (5,940)	\$ -	\$ 163,171

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 8,687	\$ -	\$ -	\$ 8,687
Less accumulated depreciation	7,098	442	-	7,540
Business-type activities capital assets, net	<u>\$ 1,589</u>	<u>\$ (442)</u>	<u>\$ -</u>	<u>\$ 1,147</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction	\$ 4,510
Support services:	
Transportation	6,502
	<u>11,012</u>
Unallocated depreciation	<u>10,175</u>
Total governmental activities depreciation expense	<u>\$ 21,187</u>
Business-type activities:	
Food service operations	<u>\$ 442</u>

Note 5. Operating Lease

The District is obligated under an equipment lease for two copiers accounted for as an operating lease.

Operating leases do not give rise to property rights or lease obligations and therefore are not included as capital assets or long-term liabilities in the District-wide financial statements. The agreement provides for monthly lease payments of \$512, which includes a maintenance agreement during the term of the lease.

The total annual lease payments under the lease agreement are as follows:

Year Ending June 30,	Amount
2008	\$ 6,144
2009	6,144
2010	6,144
2011	<u>6,144</u>
	<u>\$ 24,576</u>

The total payments under the agreement for the year ended June 30, 2007 were \$5,849.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$27,590, \$36,704, and \$36,645, respectively, equal to the required contributions for each year.

Note 7. Risk Management

New Market Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$55,169 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

NEW MARKET COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 761,364	\$ 18,252	\$ 779,616	\$ 767,750	\$ 11,866
State sources	797,072	320	797,392	820,552	(23,160)
Federal sources	79,642	14,042	93,684	165,000	(71,316)
Total revenues	1,638,078	32,614	1,670,692	1,753,302	(82,610)
EXPENDITURES:					
Instruction	1,080,760	-	1,080,760	1,165,924	85,164
Support services	392,489	-	392,489	530,100	137,611
Non-instructional programs	6,700	32,065	38,765	57,000	18,235
Other expenditures	87,394	-	87,394	208,244	120,850
Total expenditures	1,567,343	32,065	1,599,408	1,961,268	361,860
Excess (deficiency) of revenues over (under) expenditures	70,735	549	71,284	(207,966)	279,250
Other financing sources, net	221	-	221	1,000	(779)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	70,956	549	71,505	(206,966)	278,471
Balance beginning of year	279,356	4,270	283,626	272,495	11,131
Balance end of year	\$ 350,312	\$ 4,819	\$ 355,131	\$ 65,529	\$ 289,602

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures exceeded the District's spending authority in the General Fund.

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Other Supplementary Information

NEW MARKET COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Special Revenue		
	Student	Physical	
	Activity	Plant and	
		Equipment	
		Levy	Total
Assets			
Cash and pooled investments	\$ 1,202	\$ 41,067	\$ 42,269
Receivables:			
Property tax:			
Current year	-	402	402
Succeeding year	-	11,000	11,000
Total assets	\$ <u>1,202</u>	\$ <u>52,469</u>	\$ <u>53,671</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	\$ 11,000	\$ 11,000
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	1,202	41,469	42,671
Total liabilities and fund equity	\$ <u>1,202</u>	\$ <u>52,469</u>	\$ <u>53,671</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2007

	Special Revenue		
	Student	Physical	
	Activity	Plant and	
		Equipment	
		Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	\$ 12,364	\$ 12,364
Other	4,303	1,499	5,802
State sources	-	13	13
Total revenues	<u>4,303</u>	<u>13,876</u>	<u>18,179</u>
Expenditures:			
Current:			
Instruction	3,807	-	3,807
Support services:			
Operation and maintenance of plant services	-	703	703
Other expenditures:			
Facilities acquisition	-	5,484	5,484
Total expenditures	<u>3,807</u>	<u>6,187</u>	<u>9,994</u>
Excess of revenues over expenditures	496	7,689	8,185
Fund balances beginning of year	<u>706</u>	<u>33,780</u>	<u>34,486</u>
Fund balances end of year	<u>\$ 1,202</u>	<u>\$ 41,469</u>	<u>\$ 42,671</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Library Club	\$ 528	\$ 1,007	\$ 1,312	\$ 223
Shows (Assemblies)	126	307	126	307
Instrumental Music (Band)	-	2,432	1,760	672
Athletics	52	-	52	-
Intrafund Transfers	-	557	557	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ <u>706</u>	\$ <u>4,303</u>	\$ <u>3,807</u>	\$ <u>1,202</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ <u>671</u>	\$ <u>919</u>	\$ <u>1,053</u>	\$ <u>537</u>
Liabilities				
Other payables	\$ <u>671</u>	\$ <u>919</u>	\$ <u>1,053</u>	\$ <u>537</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 671,034	\$ 674,150	\$ 672,955	\$ 593,160
Tuition	44,551	58,826	31,578	34,015
Other	45,779	33,381	25,324	22,335
State sources	797,072	841,653	790,431	764,402
Federal sources	79,642	104,735	128,914	126,196
Total revenues	<u>\$ 1,638,078</u>	<u>\$ 1,712,745</u>	<u>\$ 1,649,202</u>	<u>\$ 1,540,108</u>
Expenditures:				
Instruction	\$ 1,080,760	\$ 1,101,799	\$ 1,115,103	\$ 1,030,676
Support services:				
Student services	10	197	59	89
Instructional staff services	24,129	46,666	34,183	21,521
Administration services	177,485	176,550	169,412	166,595
Operation and maintenance of plant services	110,826	122,904	137,157	131,150
Transportation services	80,039	105,671	77,906	96,091
Non-instructional programs	6,700	4,500	650	5,087
Other expenditures:				
Facilities acquisition	32,225	88,781	13,712	32,817
AEA flowthrough	55,169	53,881	52,561	52,628
Total expenditures	<u>\$ 1,567,343</u>	<u>\$ 1,700,949</u>	<u>\$ 1,600,743</u>	<u>\$ 1,536,654</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
New Market Community School District:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of New Market Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Market Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Market Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Market Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects New Market Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of New Market Community School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by New Market Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Market Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about New Market Community School District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

New Market Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit New Market Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of New Market Community School District and other parties to whom New Market Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of New Market Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
September 7, 2007

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

- I-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that all cash receipts and cash disbursements were all done by the same person. However, the principal reviews all bank reconciliations and invoices.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to investigate alternatives and implement wherever possible.

Conclusion – Response accepted.

- I-B-07 Bank Reconciliations – We noted \$73,250 of checks written in July 2007 that were included as outstanding checks on the June 30, 2007 bank reconciliation. An adjustment was necessary to reflect the proper balances on the District's financial statements.

Recommendation – This practice understates cash and accounts payable. The outstanding checks on the bank reconciliation should include only checks that had been written June 30 or earlier but had not cleared through the bank. All checks should be dated the day they are written.

Response – We will try to properly record and date checks in the future. We will discontinue the practice of recording accounts payable items as outstanding checks.

Conclusion – Response accepted.

- I-C-07 Disbursement Approval – Out of forty disbursements tested, the Board had not approved two disbursements. On one of these disbursements, the Board had approved all but \$63.60 of the \$339.45 disbursement.

Recommendation – This weakens the control that the Board has over disbursements. All disbursements should be approved by the Board.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General's opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part I: Findings Related to the Basic Financial Statements (continued):

Significant Deficiencies (continued):

I-C-07 Disbursement Approval (continued)

Response – We will make sure that all disbursements are properly approved by the Board in the future.

Conclusion – Response accepted.

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

- II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted. However, expenditures exceeded the District’s spending authority by approximately \$166,000.

Recommendation – The District should contact the Department of Management to resolve the matter of exceeding the spending authority.

Response – We will contact the Department of Management about the spending authority.

Conclusion – Response accepted.

- II-B-07 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

<u>Paid To</u>	<u>Fund Used</u>	<u>Purpose</u>	<u>Amount</u>
Iowa Workforce Development	Management Levy	Interest on unemployment claim	\$ 20

Recommendation – The District should timely pay any employment claims to avoid any interest charges.

Response – We will timely pay any future unemployment claims.

Conclusion – Response accepted.

- II-C-07 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brian Fine, Board Vice President Owner of Fine Services	Pest control	\$ 621

In accordance with Chapter 279.7A of the Code of Iowa, the transaction does not appear to represent a conflict of interest.

- II-E-07 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes – Except as previously noted in item I-C-07, no transactions requiring Board approval which had not been approved by the Board were noted.

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting (continued):

- II-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-I-07 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Unallowable Expenditures – The proceeds of taxes levied under Chapter 289.3 of the Code of Iowa were used to purchase several units of equipment that were each less than \$500. The total unallowable expenditures from the Physical Plant and Equipment Levy (PPEL) Fund for the year ended June 30, 2007 totaled \$5,187. The General Fund has reimbursed the PPEL Fund for these expenditures. In addition, the Capital Projects Fund purchased two units of equipment for \$400 that would not be an allowable use of local option sales and services tax (LOSST) revenues. The General Fund has reimbursed the Capital Projects and PPEL Funds for these expenditures.

Recommendation – The PPEL Fund may make expenditures only for the purposes stated in Chapter 298.3 of the code of Iowa. Equipment may be purchased from the PPEL Fund only if the value of the single unit of equipment exceeds \$500. The LOSST revenues can only be spent on the purposes stated in the LOSST election ballot, which is school infrastructure as defined in Chapter 442E.1 of the Code of Iowa.

Response – We will make sure that all future PPEL and LOSST expenditures comply with the Code of Iowa and the LOSST election ballot.

Conclusion – Response accepted.

- II-K-07 Travel Allowance and Reimbursement – We noted that an employee receives a flat dollar travel allowance and another employee receives reimbursement for commuting miles but neither of these payments goes through the District’s payroll process.

Recommendation – All flat dollar allowances should go through the payroll process with the appropriate taxes withheld. Alternatively, the District could switch to an accountable plan where the employees would be reimbursed for actual travel expenses reported. Commuting mileage reimbursements would be considered taxable income under Internal Revenue Service guidelines and should go through the payroll process with the appropriate taxes withheld.

Response – We will pay travel allowances and commuting mileage reimbursements through the payroll process in the future.

Conclusion – Response accepted.

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